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Project Governance – The Definition and Leadership Dilemma

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Abstract

The terminology, definition and context of project governance have become a focal subject for research and discussions in project management literature. As a very current topic in both academic research and practice, various attempts have been made to define the concept and construct of project governance as well as providing practical guidelines to project leaders. In parallel the International Standards Organization (ISO), through a sub-working group of Technical Committee TC 258, is in a process of developing an International Standard on the Governance of Projects, Programmes and Portfolios, which will contain guidelines on project governance principles. From an in-depth review on current project governance literature it became evident that the conceptualization of project governance has thus far been driven from a 'project management' point of view. The majority of authors on project governance are from a project management background, attempting to construct a framework through a bottom-up approach. Given the wide range of industry specific projects, different types and values of projects, varying stakeholder interests as well as complexity spectrum, the bottom-up approach has its limitations when providing concise guidance to leaders, when exercising and enforcing project governance. Based on this observation the objectives of this research article were three-fold. Firstly, investigate the concept of project governance from a 'governance' point of view instead of the 'traditional' project point of view. The second objective of the study was to identify the factors causing disparity and differences in opinion towards the conceptualization of project governance. In conclusion the approaches towards governance, in relation to project classifications, are integrated to propose a conceptual project governance framework for project leaders.

As part of the first objective, the origin of governance, its justification, intent and construct is reviewed and discussed with specific reference to principle-agent theory and development theory. The evolution from governance towards corporate governance is dependent on the varying country approaches towards the definition, framing and application of governance principles. It was observed that country approaches towards corporate governance vary from strict financial controls in the form of legislation, to emphasis on social responsibility. From the country review on corporate governance practices it became clear

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that a 'global' corporate governance guideline is required to ensure a common approach towards business conduct in terms of financial performance, environmental, socio-economic and sustainability requirements.

From current literature, three different approaches towards project governance were identified. These approaches were classified in three 'schools of thought', namely the single-firm school, multi-firm school and large capital school. The single-firm school is concerned with governance principles related to internal organizational projects, and practices these principles at a technical level. Projects associated with the single-firm school include information technology projects, capital expansion, business improvement, restructuring projects, etc. It was also found that, even though reference is made to project governance, the terms used to 'govern' includes 'control, manage, supervise, monitor, strategic fit, resourcing, etc.' The multi-firm school addresses the governance principles concerned with two or more organizations participating on a contractual basis on the same project and focus their governance efforts at the technical and strategic level. Words used to 'govern' in the multi-firm school, include 'relationships, agreement, collaboration, contracts, protection, etc.' The large capital school considers projects as temporary organizations, forming their own entity and establishing governance principles at an institutional level. From these schools of thought it can be concluded that the definition of project governance is a function of stakeholder complexity and functional positioning in the organization. Words found to 'govern' in the large capital school are 'politics, policy, principles, guidelines, decision-making, socio-economics, front-end, external stakeholder interest, ethics, etc.'

The study concludes by providing an integrated approach for leaders towards the definition of project governance that considers the various country approaches towards corporate governance. It further proposes an inclusive, conceptual project governance framework with principles and elements to be converted in project and organizational specific project governance frameworks and guidelines for project leaders to refer to. The development of project governance frameworks should also consider the complexity of projects spanning across international companies, across country borders and incorporating different value systems, legal systems, corporate governance guidelines, religions and business practices.

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Keywords: Project governance; project leadership; project management; governance.

1. Introduction

The term 'project governance' has become ubiquitous (Bevir, 2011, p.1).

Despite various attempts by academics and practitioners, general agreement on the definition, context and content of a practical project governance model, remains wanting. As academics, theorists and consultants continue to research, construct and promulgate various ideas around project governance, project leaders, sponsors and executives yearn for a simple guide for practical application.

Since 2012 the International Standards Organization (ISO), through a sub-working group named Technical Committee TC 258, embarked on a process of developing an International Standard on the Governance of Projects, Programmes and Portfolios, which will contain guidelines on the topic. During various working group discussions and in-depth reviews on current project governance literature, it became evident that the conceptualization of project governance has thus far been driven from a 'project management' point of view. The majority of authors, and working group participants on project governance, are from a project management background, attempting to construct a framework through a project lens. Given the wide range of industry specific projects, different types and values of projects, varying stakeholder interests as well as complexity spectrum, this approach has its limitations when providing concise guidance to leaders when exercising and enforcing project governance. On the other hand, general management, including in many cases sponsors, views project governance through a corporate governance lens. When merging to management fields into a new discipline, it is quite possible that disparity will occur at the engagement boundary. However, a point of general agreement is that project governance should be aligned with corporate governance. As projects are considered to be part, or even a subset of organizational activities, this derivation of alignment seems logical. Baring the fact that different country viewpoints exist regarding the content of corporate governance and opposing arguments regarding the managerial level of application of governance principles, the general agreement of alignment remains unresolved. Thus, it is of critical importance that the world of project management understands and fully appreciates the origin, characteristic and principles of governance and evolution of corporate governance, prior to entrenching it into the project management fraternity.

This research involved a literature review on the evolution of governance towards corporate and project governance, and then towards different points of view regarding the positioning and functioning of governance in the organization (figure 1). Firstly, a review was done on the concept of project governance from a 'governance' instead of a 'traditional' project point of view. Starting with 'governance' as a concept, the establishment of corporate governance as a subset of governance, is explained. Of importance in the review of corporate governance, is the various country approaches towards defining and applying corporate governance. Secondly, factors were identified that cause disparity and differences in opinion towards the conceptualization of project governance. In conclusion, the approaches towards governance in relation to project classifications, are integrated to propose a conceptual guideline for top management, leaders and sponsors regarding the practical application of project governance.

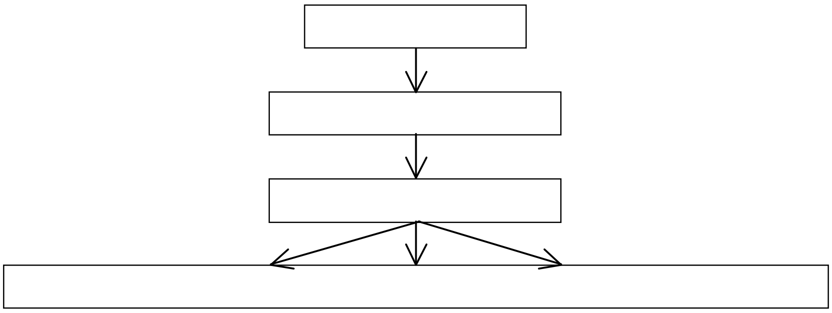

Figure 1. Structure of the research

It should be noted that this research only focused on project governance and did not include programme and portfolio management.

1. Governance

In order to stem the pervasive use of the term 'project governance' the very nature of the origin, theory, dimensions and dilemmas of governance needs to be understood.

The Oxford Dictionary (2014) defines 'governance' as "the action or manner of governing a state, organization, etc." which in itself is a very incomplete description. According the Wikipedia (2014) the word 'governance' derives from the Greek verb κυβερνάω [kubernáo] which means to 'steer'.

Governance originated from the depletion of the state as a monolithic entity or actor and engaging other sectors, such as the private sector, to fulfil their public mandate (Bevir, 2011, p. 1). With state organizations realizing their increasing limitations to serve society in a modern, globalized world, a process of outsourcing and contracting private entities to deliver goods and services evolved. The mutual dependency among the actors requires administrative arrangements that guide, regulate and influence their behaviour. Referred to as 'governance', these arrangements are often hybrid practices which combine administrative systems with market mechanisms and public organizations. According to Bevir (2011, p.2) three distinctive features of governance are evident. Firstly, governance arrangements have become hybrid practices which combine administrative practices and systems with market and non-profit mechanisms. Secondly, governance has become multi-jurisdictional and often transnational and lastly, governance is increasing in the range and plurality of stakeholders.

Through the evolution of governance, a sound theoretical base has been established. Even though theorists departed their arguments from different perspectives, believes and experiences, their collective efforts have transpired in practical applications of governance systems and are continuously refined as the nature of society and social behaviour evolves.

The following sub-paragraphs provide a brief overview of some of the theories contributing to the contextualization of governance, the practice of governance and some of the challenges and dilemmas of governance systems.

1.1. Theory of governance

The phenomenon of the self-interest behaviour of public and private sectors officials is one of the dominant drivers of governance theorist thinking and arguments.

Involving the private sector in state affairs is political and called for policies from the outset. With a network of actors participating Dowding (1995, p. 138) observed that 'policy networks' evolved metaphorically from group-government relations such as 'whirlpools', 'sub-governments', 'triangles', 'webs', and 'iron triangles'. The concept of 'iron triangle' originated in the United States of America and explained the relationships among the relevant executive agency, congressional subcommittee and interest group organizations. The various terms elucidated to the believe that the distinction between public and private organizations were flexible, the pattern of linkages within a sector affected policy outcomes and the sub-governmental level was most important for understanding the detail of policy formation and the success of policy implementation. The emphasis on relationships and mutual dependencies among organizations and individuals was core to the formation, development and function of policy networks (Carlsson, 2000, p. 504).

The consequences of globalization and post-industrialism/modernism gave rise to an extension of the policy network of policy paradigm towards the concept of governance networks (Stoker, 2004, p. 9). According to Blanco, et al. (2011, p. 299), the differences between policy network and governance network approaches are based on eight sets of characteristics, namely historical interpretation, contextual determinants, network composition and dynamics, network forces, nature of exchanges, institutionalization, democratic impacts as well as power and politics. With respect to network composition and dynamics, policy networks focus on the existence of different types of networks, whereas governance networks emphasize the differences between networks, hierarchies and markets. Regarding the democratic impact, policy networks are considered to be a source of policy, stability and privilege whereas governance networks act as a source of policy innovation and democratic renewal. Finally, the power and politics of policy networks support hierarchical government, by the incorporation of non-governmental elites with governance networks, shifting away from hierarchy towards more plural modes of governing.

With 'policies' and 'networks' entrenched in governance, various theories emerged that helped define, explain and establish the principles and guidelines of governance in practice. These theories included principal-agent, transaction cost, rational choice, interpretive, organization, institutional, system, metagovernance (Sorensen & Torfing, 2009), state-society relationships and development theory (Bevir, 2011, p. 4-6). Even though each of these theories contributes to the understanding and definition of governance principles, two (principle-agent / transaction cost theory and rational choice theory) are considered to be key to the further development towards corporate and project governance.

2.2. Rational choice theory

According to Dowding (2011, p. 36-37) rational choice incorporates the behaviour of people in terms of their preferences within a formal structure. Through an organizing perspective methodology models are built around the non-predictability of politics, commitments, democratic conflicts and anomalies around principle-agent theory. Of note, and very relevant to governance approaches, is the finding by McClennen (1997, p. 258) that through pragmatic rationality and rules, commitment is bound by consequentialism. This finding is supported by Dietrich and List (2013, p. 104) that someone's preferences, or eventual commitments, may vary with changes in individual's or organizations' motivating reasons. Eventually, governance should aim to provide normative reasons or motivations to provide a point of reference. The contribution of rational choice theory towards governance, lies in the awareness of the dangers of regulation when agencies capture the regulators for their own interest. In such cases the inefficiencies and inequities could be devastating to other interest groups (Dowding, 2011, p. 46).

2.3. Principle-agent and transaction cost theories

The basic formation of principle-agent theory takes place when delegation occurs when the agent has time, information, resources and skills that the principle lacks (Kiewiet & McCubbins, 1991). Due to this mutually dependent relationship principle-agent theory is entrenched in commitment problems. The dilemma of fairness, incentives, compensation and acting in the general *esprit de corps* of the overall objectives, remains complicated and often illusive (Garen, 1994, p.1198 and Fehr & Schmidt, 2004, p. 462-465). Viewing projects as temporary organizations the principle-agent theory also transpires in the project world, thereby transcending the principles of the underlying theories of governance towards project actors (Turner & Müller, 2003, p. 3). Extending principle-agent theory to transaction cost theory the terms services provider and customer emerge, thereby entrenching the commercial relationship as evident in most agreements (Frauendorf, 2006, p. 53). Turner and Keegan (2001, 254-256) incorporated transaction theory into a governance mechanism for project, by referring to the roles of the 'broker' and 'steward'.

Eventually, governance is about establishing the conditions of the relationship between two, or more, contracting parties. The result of the outcome of the contracting relationship will be depended on the governance framework and rules as well as the mutual intent towards the functioning of the relationship. In its most fundamental form governance means 'to steer', not manage, control or supervise.

It can be argued that governance is globally maturing. Various mechanisms have been developed to measure governance. These measurements assess the overall public health of nations by addressing and valuing liberal democracy, constitutional democracy, level of good governance, corruption and human rights (Norris, 2011, p. 186-189).

With the theory and principles of governance generally agreed upon, various countries embarked on their own efforts to transform the principles into practice by developing and establishing their internal corporate or organizational governance frameworks or models.

3. Corporate Governance

The turn of the century was marked by a number of incidents that lacked corporate accountability, responsibility, fairness, or transparency, and that gave rise to negative developments in corporate governance such as corporate scandals at Enron, Parmalat, Worldcom, and others (Bekker & Steyn, 2009, 81). This resulted in the acceleration of country-specific laws and guidelines for corporate governance.

Apart from non-governmental institutes like the United Nations, World Bank and the International Monetary Fund, various countries initiated task teams to develop their own, in-country, corporate governance guidelines. The end-result was a range of corporate governance models that reflected those aspects that each country believed, was important to their internal challenges. These included the efficiency of local capital markets, the extent to which the legal system protects shareholders, reliability of accounting standards, enforcement of regulations as well as societal and cultural values (Larcker & Tayan, 2011, 23). Considering the internal challenges and variables, various country corporate governance models emerged with emphasis on specific themes. Typical models included the strict financial reporting requirements of the Sarbanes-Oxely Act of 2002 and Dodd-Frank Financial Reform Act 2010 (United States of America), Anglo-Saxon and shareholder-centric approach (United Kingdom), job preservation and shareholder return (Germany), Keiretsu stakeholder-centric (Japan), Chaebol conglomerates (South Korea), state influence and control (China), Novo Mercado (Brazil), financial regulation (India), to the triple bottom line of profit, social and environmental care of King III (South Africa) (Larcker & Tayan, 2011, 37-59). With different areas of focus, the development of a globally accepted corporate governance guideline or practices remains challenging. Various attempts have been made to compile a global corporate governance standard (Gillibrand, 2004, 6) with the closest possible being the establishment of the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance (2004). From the country review on corporate governance practices, it became clear that a 'global' corporate governance guideline is required to ensure a common approach towards business conduct in terms of financial performance, environmental, socio-economic and sustainability requirements.

Evidently, as described by Sir Adrian Cadbury, corporate governance is a social contract.

"*Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society*" - Sir Adrian Cadbury (Heritage Institute, 2000).

With the widely accepted OECD principles on corporate governance as basis and a project viewed as a temporary organization (Turner & Müller, 2003, 1), the superimposing of corporate governance principles onto a project to form a conceptual project governance framework, are discussed in the following paragraphs.

4. Project Governance

Since the late 1990's the term project governance has attracted much attention and debate in project literature (Bekker, 2014, p.24). The quest to define and apply project governance is fuelled by the growing frustration of especially large capital project failure (Flyvbjerg, Bruzelius & Rothengatter, 2003, p.12-21 and Miller & Lessard, 2000, p.14) and the realization that project management at a technical and operational level should be complemented and supported at strategic and institutional management levels (Klakegg & Artto, 2008, Sanderson 2012, p.432).

In reviewing the literature, the theoretical definition of project governance seems to be depended on the various authors' technical backgrounds, areas of practice or research fields. Ruuska, Ahola, Artto, Locatelli and Mancini (201, p.650) identified three main categories of project governance. The first category of literature focuses on analyzing a single firm's governance scheme when selecting and managing multiple, internal projects. The second category considers multi-firm projects where various companies engage in contractual agreements. The third category considers projects as hybrid or network like structures involving multiple interconnected actors relying on the presence of one supreme hierarchical authority, almost always the lead sponsor or underwriting firm. These projects can involve a diverse accumulation of actors with, quite often, opposing interests and agendas towards the management, as well as outcome of the project.

In a second categorization of projects, Morris and Geraldi (2011:20-23) argued that the management of projects in institutional context could be viewed in three functional levels. These levels and their contexts are:

- Level 1: Technical – operational and delivery orientated with the focus on the tools to be used, practices, management and control of project activities.
- Level 2: Strategic – managing projects as organizational, holistic entities, expanding the domain to include their front-end development and definition. This level ensures alignment with the sponsor's objectives, leadership, contracting strategy and influencing stakeholders.
- Level 3: Institutional – managing the institutional context with an external, global environment.

The categorization of these commonalities forms the basis of the three project governance 'schools of thought' (Bekker, 2014, p.25) namely the (i) Single firm (SF) school, (ii) Multi-firm (MF) school and (iii) the Large capital (LC) school.

Even though approaches towards project governance are categorized into the above schools, it does not mean that all aspects of each category are mutually exclusive. There are potential areas of overlapping of concepts, especially between the MF and LC schools of thought.

4.1. Single firm (SF) school

The definition and application of project governance in the SF school, are driven by projects within a single, autonomous company. Due to the internal focus, SF school practitioners are often IT companies and organizations more concerned with their internal projects with no, or minimal, external client engagement. Due to its top-down nature, the SF school view project governance at a strategic and technical level (Figure 2).

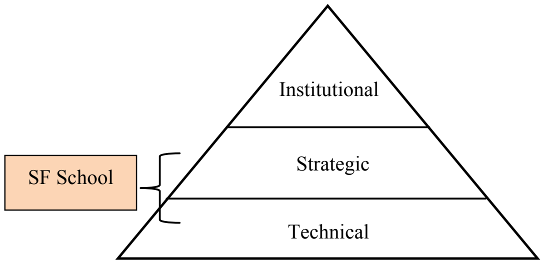

Figure 2. SF school of thought (Source: Bekker, 2014)

Marnewick and Labuschagne (2011, p.668) and Bouraad (2010, p.75) found IT project governance concerns, selecting the right internal projects and that they are implemented as per company methodologies and standards. Further SF school thinking is also evidence in the APM Guide of Governance of Project Management (APM, 2004) where the focus is on 'looking over the shoulder' of the project manager to ensure compliance to good project management practices. In this respect words such as 'control', 'manage', 'supervise', 'monitor', 'strategic fit', 'resourcing', are often find in SF school thinking.

In the SF school, the value of the project is of secondary concern. This means that large capital projects, of significant monetary value, could also reside under the SF school if such projects are under the single control, influence and authority of the said firm. With the sponsor a single corporate entity, project governance in the SF school could be taken care of by corporate governance only.

4.2. Multi-firm (MF) school

The MF school concentrates on the contractual relationships among different firms participating in a single, or multiple projects (Bekker, 2014, p.25). Winch (1989, p.331) argued that, despite the existence of three influential perspectives in project management, namely socio-technical, organization and environment as well as project management practices, they contain no formal framework for analyzing and managing the inevitable differences in interest between the different participating firms. This observation can again be traced to the investigation of transaction cost theory (Williamson, 1981, p.548, 573) as a mechanism to analyze the differences in interest.

As opposed to the SF school, the level of governance practice in the MF school, is at the strategic and technical levels (Figure 3).

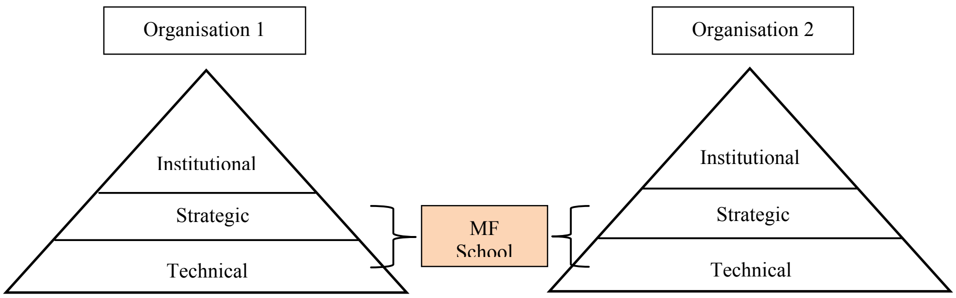

Figure 3. MF school of thought (Source: Bekker, 2014)

Bosch-Sijtsema & Postma, (2010), Pemsel & Müller (2012) and Kannabiran & Pandyan (2010) investigated the governance factors which enable knowledge transfer in inter-organizational development projects. With various participants engaging in project activities across organizational boundaries, the exposure to sensitive information and know-how of the participating coalition firms are inevitable (Bekker, 2014, p.26). In their research Bosch-Sijtsema

& Postma (2010, p.605) found that a mixture of mutual trust and formal contracts should serve as governance mechanisms across organizational boundaries.

Supporting the application of project governance at a strategic and technical level, Abu Hasim, Kajewski and Trgunarsyah (2011, p.1930) highlighted the importance of proper protocol and transparency when handling commercial contracts and procurement across the client and participating consultants and contractors.

Literature, supporting the MF school, often refers to governance activities with words such as 'relationships', 'agreement', 'contracts', 'collaboration', 'protection'.

4.3. Large capital (LC) school

The LC school tends to view projects as temporary organizations which have to define appropriate governance frameworks within which project decisions can be made (Bekker & Steyn, 2009). The intrinsic complexity of many large capital projects, whether private, public or public-private-partnership projects, lies in their international, cross-country borders of different contracting companies and even hosting nations. Ruuska et al (2011, p.657) argue that stakeholder complexity is of major concern and the key contributor to poor project performance in large capital projects. These type of projects continuously face the challenge of governing a project's internal complex supply chain of multiple, multi-national firms while simultaneously governing the network of external actors. In the LC school the focus shift from contractual and strategic agreements to higher level, institutional issues that interact with the external / macro environment (Figure 4).

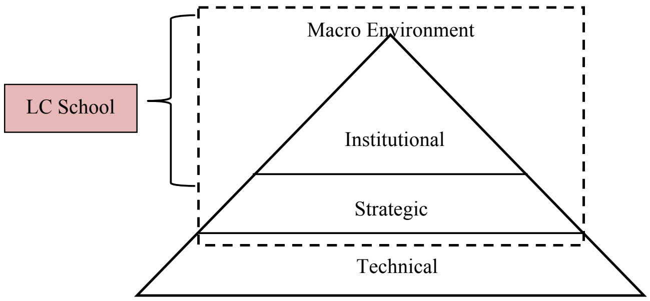

Figure 4. LC school of thought (Source: Bekker, 2014)

Within the LC school the emphasis is on creating an environment, shielded from external environmental, political and strategic influences, within which the activities of project management can prosper. A central theme is 'decision-making', as opposed to management and controlling. Researching various public projects Klakegg, Williams, Magnussen & Glasspool (2008, S30), concluded that a project governance framework should consist of an authoritative, organised structure within the sponsoring institution, comprising of processes and rules to ensure that projects meet their purpose. Williams et al (2010) took the process approach further and concluded that the gate-review process as a quality control mechanism should form an integral part of the governance framework of public projects. This finding supports the view from Samset, Berg and Klakegg (2006) and Christensen (2009) who refer to the strategic management of the early phases of major public project as 'front-end governance'. Lastly Winch (2001:800) refers to the governance of the project process as the 'process of the progressive reduction of uncertainty through time'.

Key words found in the LC school literature are 'politics', 'policy', 'principles', 'guidelines', 'decision-making', 'socio-economics', 'front-end', 'external stakeholder interest' and 'ethics'.

From analyzing the various schools of thought it can be deducted that governance in its initial definition is best applied on LC projects. SF is mostly bound the sponsor's corporate governance requirements while MF projects will be exposed to transaction cost principles. Viewing LC projects as temporary organizations, incorporating various corporate governance approaches, necessitates the definition and formation of a customized, project governance framework.

5. Project governance for project leaders

Given the various attempts to define project governance the practical question remains; 'what guidance can be given for project leaders to apply on their projects'?

Building on the rationale that governance is associated with the 'steering' of an entity rather than managing and that formal corporate governance principles have been developed, a proposal is made to superimpose the OECD principles of corporate governance (OECD, 2004, p.17-24) onto project governance. The resultant principles for project governance are presented next to the accompanying corporate governance principles in Table 1.

Table 1. OECD Corporate versus Project Governance Principles

No	OECD Corporate Governance Principles	Project Governance Principles
1	Ensuring the basis for an effective corporate governance framework;	Basis for effective project governance framework;
2	The rights of shareholders and key ownership functions;	The rights of project sponsors and financiers;
3	The equitable treatment of shareholders;	Equitable treatment of all role players including client, contractors, suppliers, sponsors, etc;
4	The role of stakeholders;	Socio-economic and environmental care;
5	Disclosure and transparency;	Ethical conduct;
6	The responsibilities of the board.	Responsibilities of the project steering committee.

As with corporate governance, project governance should now move forward and develop practical guidelines as per the six principles listed. Whereas organizations have strategic roadmaps or plans, projects should have a staged-gate process with decision-making intervals. With the rights of shareholders entrenched in legal systems, the rights of sponsors and financiers of projects should be formalized. As large capital projects impacts various stakeholders directly and indirectly during the implementation phase, formal procedures and communication protocols should be established to ensure equitable treatment of all. Many projects fail due to poor socio-economic and environmental care. As organizations are often bound by various ISO standards (such as ISO 14000 – Environmental Management), specific requirements should form part of project governance. Large capital projects are vulnerable to corrupt activities and therefor specific guidelines should be developed for each project exposed to potential misconduct. As with the Board of Directors, a Steering Committee should be established with specific competencies, roles and responsibilities.

6. Conclusions

By definition project governance should involve the 'governance' aspects of projects, not the management and control aspects. Project governance should be applied to a project in the same manner as corporate governance to an organization. Viewing project governance from a 'governance' point of view should guide the defintion effort of project governance and raise the ongoing debate to the level of institutional relevance. Projects managed in a single firm could be governed by the firm's corporate governance framework. For projects involving multiple firms in a formal contractual relationship, project governance principles should be established as required. For large capital projects, involving mutliple companies, countries and stakeholders should formalise and agree on project governance framework. Such a framework should not only align the cosmopolitan composition of the project but also improve the basis for statutory decision-making.

7. Recommendations

Even though the debate, discussions and research in project governance should continue, the emphasis should move forward to provide more practical guidelines to be tested in practice. Specific efforts should be towards the development of criteria for Steering Committee selection and conduct. Engaging stakeholders, especially within challenging socio-economic environments, remain problematic and further research is required on how to positively influence and involve communities where large capital projects are deployed. Ethical conduct remains contentious and methods, of how to establish mutual frameworks of agreement across cultural beliefs participating on a project, should be investigated.

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